APA LIFE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2017

Insuring Happiness

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What is happiness?

Happiness comes easily when you know that you and your loved ones are covered form life's uncertainties.

APA, Insuring Happiness

Vision

We put smiles on the faces of our stakeholders.

Mission

We are the region's most respected group creating and protecting wealth.

CORPORATE INFORMATION

DIRECTORS
R M Ashley*
D M Ndonye
A K M Shah
P J Shah
S M Shah
R Schnarwiler**
J N Gitoho
P M K Shah*
*British, **Swiss

COMPANY SECRETARY
P H Shah
Certified Public Secretary (Kenya)
P.O. Box 30094 - 00100, Nairobi

SENIOR MANAGEMENT
Catherine Karimi - *Chief Executive Officer*
Daniel Mugo - *Chief Finance Officer*
Jane Watiki - *Head of Operations*
Bernard Kinyanjui - *Head of Corporate Business*
Stephen Muiga - *Business Development Manager - Alternative Channels*
James Njagi - *Business Development Manager - Pensions*
Mark Mumo - *Business Development Manager - Group Life*
Benedicto Makena - *National Sales Manager*

AUDITOR
PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower, Waiyaki Way, Chiromo Road
P.O. Box 43969- 00100
Nairobi

BANKERS
Commercial Bank of Africa Limited
P.O. Box 30437-00100
Nairobi

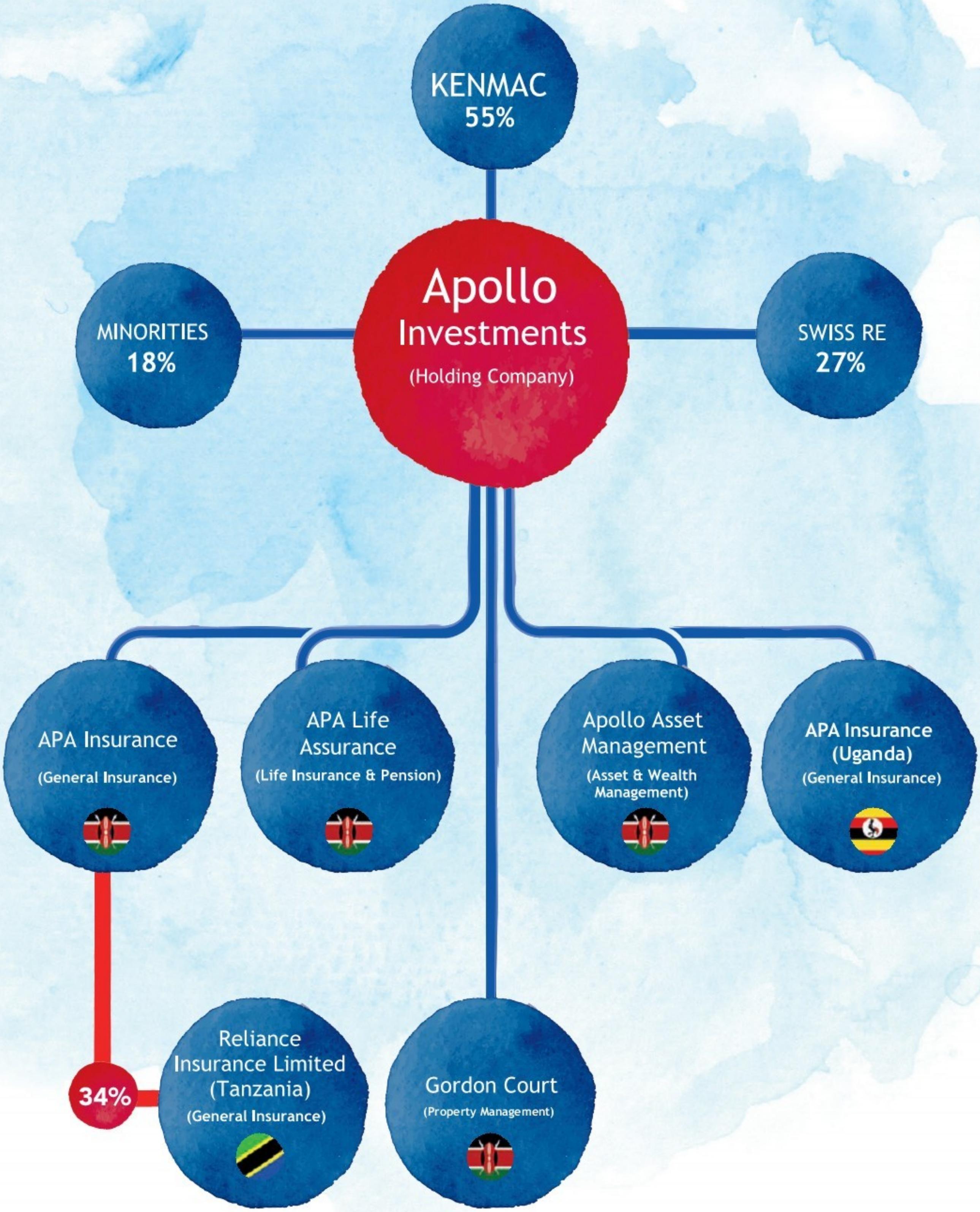
CONSULTING ACTUARIES
Giles T Waugh, FASSA, FIA
Independent Actuarial Consultant
+27 11 646 0199/ +27 83 680 7990

REGISTERED OFFICE
Apollo Centre,
07 Ring Road Parklands, Westlands
P.O. Box 30389 - 00100
Tel: +254 (0) 20 364 1000
Nairobi

HUGHES BUILDING,
Kenyatta Avenue
P.O. Box 30389 - 00100
Tel: +254 (0) 20 364 1042
Nairobi

APOLLO HOUSE
Moi Avenue
P.O. Box 81821 - 80100
Tel: +254 (0) 41 227506
Mombasa

GROUP STRUCTURE



BOARD OF DIRECTORS

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1. **Ashok Shah** - Director
2. **SM Shah** - Director
3. **Richard Ashley** - Chairman
4. **James Gitoho** - Director
5. **Daniel Ndonye** - Director
6. **P J Shah** - Director
7. **Reto Schnarwiler**- Director
8. **Piyush Shah** - Director
9. **Pratul Shah** - Company Secretary

MANAGEMENT TEAM

1. **BERNARD KINYANJUI** - *Head of Corporate Business*
2. **JACKIE TONUI** - *Group Head of Corporate Communications*
3. **JULIANA NGULI** - *Group Head of Human Resources*
4. **JANE WATIKI** - *Head of Operations*
5. **JAMES NYAKOMITTA** - *Group Chief Information Officer*
6. **DANIEL MUGO** - *Chief Finance Officer*

7. **MARK MUMO** - *Business Development Manager - Group Life*
8. **BENEDICTO MAKENA** - *National Sales Manager*
9. **STEPHEN MUIGA** - *Business Development Manager - Alternative Channels*
10. **CATHERINE KARIMI** - *Chief Executive Officer*
11. **JUDITH BOGONKO** – *Group Head of Customer Service*
12. **JAMES NJAGI** - *Business Development Manager - Pensions*
13. **CHRIS NGALA** – *Group Head of Internal Audit*

CHAIRMAN'S STATEMENT

Richard M Ashley
Chairman

On behalf of the Board of Directors, I am pleased to present the Company's Annual Report and Financial Statements for the year ended 31 December 2017.

Economy & Business Environment Overview

The International Monetary Fund has raised its estimate for global economic growth in 2017 and 2018, citing stronger expansion in the first half of the year in the Eurozone, Japan and some emerging markets. The IMF said the pickup in activity that started in the second half of 2016 "gained further momentum" in the first half of 2017.

On the domestic front, the World Bank downgraded Kenya's estimated GDP growth to 4.9% for 2017 from a 5.5% estimated at the beginning of the year. This is a 90 basis points drop from a 5.8% growth recorded in 2016. The expected deceleration in growth is attributed to declining economic activity driven by poor weather in most parts of the country with the resultant drought adversely affecting crops and livestock; low credit growth in the private sector following the enactment of the interest rate cap in September 2016.

In 2017 particularly the political environment regarding elections affected growth as a wait and see mode was set for local and foreign investors. Insurers also struggled to expand coverage among a large informal economy and income-sensitive population.

Inflation stood at 7.98% for the year, an increase from 6.31% in 2016. The Government's upper projection of 7.5% was passed due to the factors outlined above. The Government intervened on food inflation through application of price ceiling on maize flour when it averaged 13.5% with a high of 21.5 % in May 2017, but generally, overall inflation is still below the sub Saharan average which stands at 9.5 % and the East African average at 9.9%. By the close of the year inflation dropped to 4.5% which was a positive move.

The Kenyan shilling remained stable, depreciating by 0.65% in 2017 with the average exchange rate at KShs. 103.42, compared to 101.49 in 2016. The average foreign exchange reserve stood at USD 7,657 million. The Monetary Policy Committee benchmark was maintained at an interest rate of 10% and despite the drought and the elections, other macroeconomic indicators remained stable. This has assisted to anchor inflation within the Government target, sustain macroeconomic stability as well as stabilize the exchange rates.

The 91 Day Treasury bills averaged 8.4% in 2017 from 8.6% in 2016. Banks' average lending rates stood at 13.67 % and deposit rates at 7.46% due to interest rate capping. Private sector growth declined from 4.1% in 2016 to 2.4% in 2017, mainly due to reduced credit in agriculture, trade, transport, finance & insurance and private households.

The debt portfolio in Kenya grew by 19.4%, riding on a 23.9% growth in external debt, while domestic debt grew 15%. External debts accounted for at least 51.44% of the total debt while domestic debt was at 48.66%. In the external debt portfolio, multi-lateral debt accounted for 35.6%, bilateral debt at 33.6% and commercial banks at 29.8%.

At the end of the year, T-bills accounted for 31.9% of the total domestic debt while T-Bonds accounted for 68.1 %. Banking institutions held the majority of the government debt at 54.6%, pension funds at 27.5%, parastatals at 6.9% and insurance companies at 6.4%. Kenya's debt to GDP ratio increased from 42.1% five years ago to 56.4% in 2017.

The Insurance sector has seen some mergers and acquisitions in addition to several global brands entering the market in recent years. This is definitely propelled by the industry potential in light of the paltry penetration levels. The Insurance Regulatory Authority (IRA) celebrated its 10th anniversary with widespread publicity aimed at educating the public on the necessity of insurance and their rights. We believe that for penetration levels to leapfrog, then, there is need for collaborated efforts with all the stakeholders and implant the idea through the curriculum.

The IRA has also extended the compliance with Risk Based Capital requirements to June 2020 from earlier directives to comply by June 2018. This has become as a short term relief to many players as it gives room for shareholders to reorganise compliance before the due date. The implementation of the Risk Based Capital is expected to cure some of the highlighted industry and business risks through mergers and acquisitions.

CHAIRMAN'S STATEMENT (continued)

Economy & Business Environment Overview (continued)

Additionally, the Regulator has issued a number of other operational and management guideline to streamline the industry towards better management and protection of the stakeholders. Our board and management remain vigilant towards ensuring that the Company is always compliant with all the relevant guidelines and regulatory requirements.

On the heels of the three insurance guidelines enacted in 2017 on Capital Adequacy, Valuation of Technical Provisions, and Investments Management, IRA has introduced four new regulations aimed at operationalizing some of the sections of the Insurance Act. These regulations are on Micro insurance, Takaful, Bancassurance and Group Wide supervisions and are currently being reviewed by the stakeholders.

With more than 50 registered underwriters, the Kenyan insurance market continues to be fraught with unhealthy competition leading to undercutting, high levels of fraudulent claims, fragmented approach to common industry issues and inadequate capacity to underwrite specialised risks like oil & gas and some of the mega infrastructure projects

The motor private class continues to erode the industry profitability performance with recurring huge underwriting losses due to unhealthy pricing. The Association of Kenya Insurers has finally implemented the long awaited Integrated Motor Insurance Data System (IMIDS) that permits data sharing and collaboration.

Director Appointment

At the beginning of the year 2018, shareholders appointed Mr. Piyush Shah as a member of the Board. Piyush joins the APA family with wealth of experience and the board has expressed confidence in bringing value and diversity within the board. I therefore request the board members and other stakeholders to join me in welcoming Mr. Shah on board and looking forward to fruitful contributions.

2017 Performance Review

In 2017, we recorded gross premium income of KShs. 907Million compared to KShs 725Million in 2016 for the ordinary life and group life insurance lines registering an impressive growth of 25%. The total revenue including the DAP contribution was KShs 1.492 Million (2016: KSh 1.223 Million), translating to an overall 22% year on year growth. The pension line recorded a 17% growth in contributions from KShs 498 Million in 2016 to KShs 585 Million.

The total comprehensive loss stood at KShs 26 Million, (2016: loss of KShs 83 Million) attributed to better investments experience and tight cost controls during the year. The total asset base grew by 18% to stand at KShs 4.68Billion at end of December 2017, up from 3.98 Billion in 2016.

Our deposit administration fund maintained a steady growth of 20% and surpassed the KSh 3B mark to stand at KShs 3.12 Billion at end of the year, up from KShs 2.60 Billion in 2016. In consultation with our Statutory Actuary, the Board of Directors has approved a reversionary bonus of 4% on the "with profit individual life policies" and interest of 9.50%, (2016: 7.00%) on deposit administration schemes and individual pension plans funds. This was primary occasioned better performance of investment income and available for sale investments during the year. The board continues to support management new initiatives geared towards improving business efficiency and improving returns to all stakeholders and we believe that we are on the right track and directions.

The Company continues to enjoy the benefits of our fully integrated life management system that has enabled the business to fully automate its operations. The key benefits derived from the new system include efficient and more effective service delivery to our clients and producers through self-service client and agent portals. The system is enabling us to fully exploit the opportunities presented in the alternative distribution channels of bancassurance, mobile platforms and other digital strategies. Through this service differentiation initiative, we continuously benchmark our service delivery to the best practices worldwide which is bearing returns in form of increased business volume.

We always put our
customers first,
that's why the judges
picked us first

CHAIRMAN'S STATEMENT (continued)

2017 performance review (continued)

As a business we continue to put emphasis on best underwriting, claims settlement and management practices. Our commitment and success in these initiatives were best demonstrated and acknowledged on fourth consecutive year by the Industry through the representative body AKI which awarded us the winner on Group Life Best Loss Ratio, and 2nd Runners Up Group Life Company of the Year Award for 2017. Additionally, and in line with our growth initiatives, the business continue to improve in all lines and this was acknowledged through an award of 2nd Runners Up - Most Improved Company Award 2017. We will continue to champion these best values within our business practices.

Outlook

The 2017 elections were concluded and national peace maintained. With political uncertainty now diminished and a resumption of normal economic activities, we expect a better 2018.

There has been a growing awareness that insurance cannot maintain the status quo with the rapid change of technology. More and more underwriters have recently taken to digital marketing with the consciousness that millennials who are the majority cannot be served any other way. A number of insurance companies have developed innovative products to meet the demanding technological shift for the customers. Digital innovation has therefore taken center stage and a number of products are now being distributed through mobile apps or on online portals.. We expect this trend to continue shaping the insurance business into the future, and hopefully this will help shade off its predominantly conservative image as it embraces change

The introduction of the risk based capital adequacy supervision by the insurance regulator, as opposed to the traditional margin of solvency will continue to impact the insurance landscape. Different insurers can now hold different levels of capital depending on their business profiles. There have been shifts in the market with mergers and realignments as this comes on the backdrop of the requirement to clearly separate Long Term business and General Business.

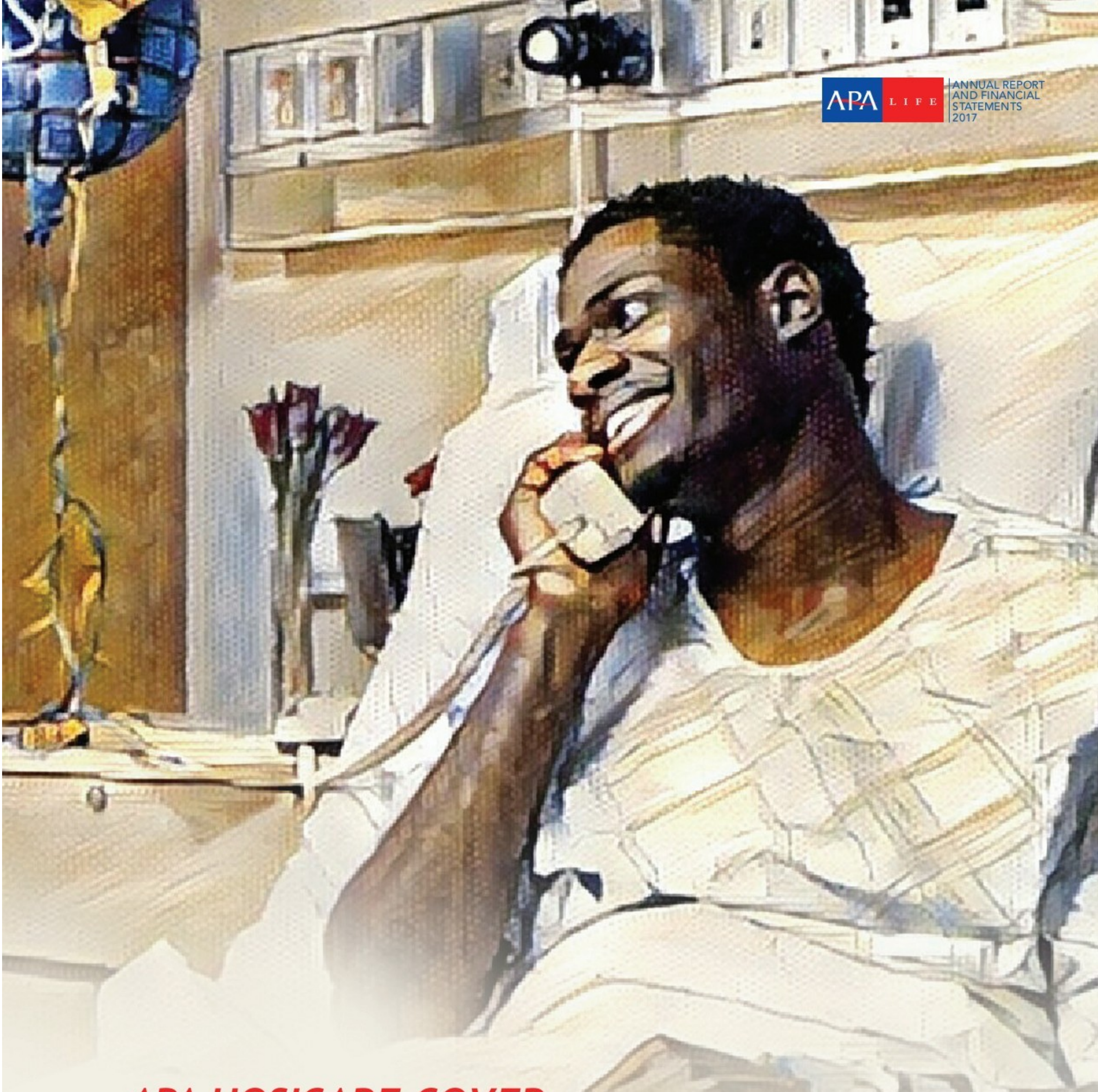
The implementation of IFRS9 requires insurance companies to make full provisions of receivables therefore affecting the bottom line/profitability of the companies. This calls for insurance companies to review their credit policy in order to comply with this regulation.

However in 2018, with a wide array of innovative local insurance market leaders, the Kenyan insurance landscape has the potential for a sizable expansion of domestic market penetration. The country also presents a solid base for reaching other African markets, which bodes well for drawing further interest from investors. Kenya plays a role in the African Insurance Organization (AIO) and the interaction should spur growth in the lager East African market and beyond. With more focus on customer service as a key growth factor, 2018 should give a better outcome. Most insurance companies have in the last one or two years realized they need to have more focus on the different selling channels and so most companies now have a Bancassurance department for example. This should lead to a more focused tailor made approach to innovation of products and subsequent distribution.

Acknowledgement

My appreciation to the policy holders, intermediaries and our business partners for their support. I wish to thank the management and staff for their commitment, loyalty and dedication in driving the Company forward. Finally, I wish to thank my fellow Directors and record my appreciation for their continued support and considered advice.

Richard M Ashley
Chairman
15 March 2018



APA HOSICARE COVER

Good health is a blessing. But for those times when your health fails you, we have APA Hosicare. It makes sure you continue earning your daily wages in case you get hospitalised. With APA Hosicare, you can concentrate on getting better and living a healthier happier life.

APA, Insuring Happiness

CEO'S STATEMENT

Catherine Karimi
Chief Executive Officer

I am pleased to present the CEO's report for APA Life Assurance Ltd for the year ended 31 December 2017.

Insurance Industry

The Kenyan Insurance market continues to face numerous challenges as well as changes in the bid to address the challenges. Despite 2017 being a very economically challenging year, the insurance industry registered an average growth of 6.6% in gross written premium with Life Business registering a higher growth of 13.6% compared to General Business growth of 2.5%.

The regulator continues to support the industry in addressing the challenges facing it. This support has inspired confidence in the market. The fraud unit led by IRA is a measure to address the fraud challenges. The regulator has also continued to offer consumer education and Agents training through the ESOP programmes conducted by IRA in various counties throughout the year. These initiatives increases awareness and understanding of insurance that is key to improved penetration.

Recent changes in regulatory framework will continue to have an impact on the industry landscape going forward. The introduction of the risk based capital adequacy supervision by the insurance regulator allow different insurers to hold different levels of capital depending on their risk profiles.

The implementation of IFRS9, taking effect from January 2018, requires insurance companies to make full provisions of receivables and investments with risk elements. This will impact the bottom line (profitability) of companies and levels of their capital positions.

The Economy

The impact of the 2017 election in the second half of the year coupled with a global economic recession have brought about a financial and economic slump of a severity that has not been experienced since the 2007-2008 post-election violence.

The World Bank scaled down the Kenya economy estimated GDP growth for 2017 from 5.5% projected at the beginning of the year to 4.9%, the insurance industry was also not immuned to this unfavorable trends blowing across the country. The Kenyan insurance industry which had grown by CAGR of 15% over the past 5 years saw its growth come down to 3% during the year.

The drought like weather conditions in many parts of the country and the poor availability of credit from the banking sector coupled with the run up to and aftermath of a bitterly contested presidential election had its inevitable fall out on the economy.

2017 Business Performance

Our company's performance was mixed in this challenging environment. The key highlights are listed below.

- Gross premium income was KShs 907M (2016: 725M) registering a positive growth of 25% of the previous year.
- Profit for the year stood at negative KShs 26M (2016: Negative KSh83M)
- Total Assets surpassed KSh 4B to stand at KShs 4.7B (2016: KShs3.9).
- Managed funds (Deposit Administration fund) grew by 19.76% to close at Kshs 3.115B up from KShs 2.6B the previous year
- Capital Adequacy Ratio was 106% (2016: 86%)
- Solvency Ratio stood at 127% (2016: 109%)

CEO'S STATEMENT (continued)

2017 Business Performance (continued)

We saw an improved profitability level coming from better costs management and efficient utilization of available resources despite high costs on management and distribution of our young individual life business which is largely at its development stage.

The pension fund grew as a result of increased new business in this line. This growth is backed by the superior customer service to our customers and partners.

Initiatives

We continue to leverage on our new IT system to improve efficiency in our processes and offer superior services to our customers. With the system now fully stabilized it's effectively supporting the growing individual life business. We are also leveraging on the clients and intermediary portals inbuilt in the system to scale up services and interaction with our customers and agents. Going forward, we will launch a full-fledged digital strategy in 2018 focused on enhancing customer experience which includes providing convenience as a value in our insurance package.

On the marketing front we have given an added emphasis to push retail products and tap this segment of the market which is where the growth potential for the future lies, the corporate section having reached saturation.

To this end we have come up with products focusing on individual and family cover cross selling combined solutions for life and general and targeting both micro and non-micro markets. Through our newly developed micro life product dubbed 'Kinga Dhabiti' we are offering an array of life insurance covers through a single policy and at a cost as low as KShs 20 per day.

We have hosted an APA awards night in Nairobi and Mombasa to recognize and honour our top performing intermediaries in various categories this has elicited a very positive response. Going forward this will be a regular feature of our event calendar and we intend to replicate this in Central, Western and Eastern regions.

Achievements, Recognition and Awards

APA participated in the 2017 Annual Think Business Insurance Awards whose objective is to encourage innovation and excellence in the Insurance sector by recognizing, awarding and celebrating exemplary performers and successes of the sector. APA won eleven awards out of the eighteen categories, scooping five overall winners' positions, three 1st runners up positions and three 2nd runners up positions.

APA Life was feted as the best in claims settlement amongst the Life Insurance Companies.

In 2017, we also participated in the Association of Kenya Insurers Group Life Best Practice Awards in which APA Life won three awards; scooped Winner in Best Loss Ratio Award and 2nd runners up in both Group Life Company of the Year Award and Most Improved Company Award.

In a service industry like ours, a company is as good as its people. We at APA firmly adhere to this philosophy and to this end our company makes a considerable investment every year on training and development of our staff. Trainings are conducted through our APA academy, external facilitators and the newly launched Swiss Re e-learning portal.

Corporate Social Responsibility

At APA we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by an existing policy and we commit to a substantial budgetary allocation each year to CSR initiatives. Our objective remains to support sustainable projects that uplift the standards living for communities that we partner with for support.

Outlook

Having weathered the storms of 2017 successfully, topped off with a rapprochement between the two bitter political rivals the nation now looks forward with optimism to 2018.

The government has loosened its purse strings and infrastructure spending is expected to receive a big boost. Investors who had adopted a wait and watch policy have started to pump in money in various projects in the private sector. The outlook of the Kenyan economy going forward appears to be bullish for the near term. The government's big 4 initiatives will not only give a fillip to the economy but also open up opportunities for the insurance sector in the affordable housing and health care initiatives.

The insurance industry is going to be severely affected in the medium term though not negatively, by two developments. First implementation of risk based capital requirement which was expected to be implemented in 2018 but has now been deferred to 2020. We were keenly looking forward to this since it will not only put an end to the current levels of reckless undercutting of premium rates but will also lead to mergers and acquisitions and open up a window of opportunity for us. Secondly the proposed adoption of IFRS 17 with effect from 1st January 2021 will bring in radical changes from the current recognition of profits and reporting system.

Appreciation

The contributions of APA's various stakeholders have ensured that continued strong performance is achieved. These are none other than our business partners, intermediaries and customers. I would like to thank you for your continued support and loyalty, which have been instrumental in reinforcing APA's position as the financial services provider to reckon with in the Kenyan insurance market.

I would like to appreciate with thanks the board of directors for giving me the opportunity to lead this great company. I also thank all our staff across the country who continue to show dedication and provide superior service to our customers. I would also like to acknowledge with appreciation my colleagues in the management and the Board directors for their diligence, guidance and support that has ensured that we achieved great results during the year.

Catherine Karimi
Chief Executive Officer
15 March 2018

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction:

Good corporate governance is key to the integrity of corporations, financial institutions and markets and is central to the health of our economies and their stability. Corporate governance plays a leading role in determining how corporations and their boards and management are directed, controlled and held to account. Corporate governance therefore encompasses the systems, practices and procedures by which an individual corporation regulates itself in order to remain competitive, ethical, sustainable and fair.

The board of APA Life Assurance Limited follows principles of openness, integrity and accountability in its stewardship of the Company's affairs. It recognizes the developing nature of corporate governance and assesses the Company's compliance with generally accepted corporate governance practice on a regular basis. The role of the board is to ensure compliance by focusing on and providing the Company's overall strategic direction and policy-making as well as performance review through accountability and ensuring appropriate monitoring and supervision. The board is also responsible for the overall system of internal control and for reviewing its effectiveness. The controls are designed to safeguard the Company's assets and also ensure the reliability of financial information. A senior management team, comprising directors and senior managers meet regularly to consider issues of operational and strategic importance to the Company.

Below are the key features of the existing corporate governance practices within APA Life Assurance Limited:

1 Board of directors

The board of directors consists of seven non-executive directors of whom three directors are independent. All of the directors have been appointed in accordance with the provisions of the Insurance Act and the Corporate Governance Guidelines issued by the Insurance Regulatory Authority. The Chairman of the board is an independent non-executive director. The Board is responsible for setting the direction of the Company through the establishment of strategic objectives, key policies and the approval of budgets. It monitors the implementation of strategies and policies through a structured approach to reporting by executive management and consequent accountability.

The directors are actively involved in and bring strong independent judgment on board deliberations and discussions. These directors have a wide range of knowledge and experience of local and international markets that is applied to the formulation of strategic objectives and decision making.

All directors have access to the advice and services of the company secretary who also sits in every committee and board meetings and are entitled to obtain independent professional advice on Company affairs at the Company's expense.

2 Committees of the Board

The Board has constituted various Board Committees. The board and committees draws on the expertise of consultants, experts and service providers as may be required from time to time.

Each Board Committee has a Charter which contains provisions relating to their powers, membership and duties.

The Board Committees are as follows:

- Investment Committee
- Audit & Risk Committee
- Information Communication Technology Committee and;
- Remuneration Committee

CORPORATE GOVERNANCE STATEMENT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

3 Internal control

The Company has implemented and maintains internal controls designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard and maintain accountability of the Company's assets. Such controls are based on established policies and procedures and are implemented by trained personnel with appropriate segregation of duties. The effectiveness of the system of internal controls is monitored regularly through operational meetings.

4 Related party transactions

The related party transactions with the Company during the year ended 31 December 2017 are detailed under note 31 of the annual report and financial statements. The remuneration for directors consists of fees and sitting allowances for their services in connection with the committee and board meetings.

5 Social and environmental responsibilities

The board is conscious of the Company's social and environmental responsibilities. Particular attention is given to projects with a long term positive impact to the society and the environment. These include provision of clean drinking water and sponsorship of children education. The Company encourages staff to participate and actively support their various causes.

6 Going concern

The directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has the resources to continue in business for the foreseeable future. Therefore the financial statements continue to be prepared on the going concern basis.

Richard Ashley
Chairman

15 March 2018

Ashok Shah
Director

15 March 2018

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors submit their report together with the audited financial statements for the year ended 31 December 2017, which disclose the state of affairs of APA Life Assurance Limited (the "Company").

Business review

The principal activity of the Company is the transaction of long term assurance business.

Results

	Long-term business Shs'000	Shareholders' funds Shs'000	2017 Total Shs'000	2016 Total Shs'000
(Loss) / profit before income tax	(86,505)	26,803	(59,702)	(12,990)
Income tax credit /(expense)	(6,643)	-	(6,643)	(2,180)
(Loss) / profit for the year	(93,148)	26,803	(66,345)	(15,170)
Other comprehensive income/ (loss)	36,888	3,307	40,195	(67,482)
Total comprehensive (loss) /income	**(56,260)**	**30,110**	**(26,150)**	**(82,652)**

Dividend

The net loss for the year amounting to Kshs 26,150,000 (2016: Shs 82,652,000) has been deducted from retained earnings. The directors do not recommend payment of dividends (2016: Nil).

Directors

The directors who held office during the year and to the date of this report are set out on page 4.

Disclosure to auditors

The directors confirm that with respect to each director at the time of approval of this report: there was, as far as each director is aware, no relevant audit information of which the Company's auditor is unaware; and each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Terms of appointment of auditors

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

By order of the board
Company Secretary

15th March 2018

STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 DECEMBER 2017

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company at the end of the financial year and its profit or loss for the year then ended. The directors are responsible for ensuring that the Company keeps proper accounting records that are sufficient to show and explain the transactions of the Company; disclose with reasonable accuracy at any time the financial position of the Company; and that enables them to prepare financial statements of the Company that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act 2015. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act 2015. They also accept responsibility for:

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
ii. Selecting suitable accounting policies and then apply them consistently; and
iii. Making judgements and accounting estimates that are reasonable in the circumstances

In preparing the financial statements, the directors have assessed the Company's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors 15 March 2018 and signed on its behalf by:

Daniel Ndonye
Director

Ashok Shah
Director

REPORT OF THE CONSULTING ACTUARY
FOR THE YEAR ENDED 31 DECEMBER 2017

I have conducted an actuarial valuation of the insurer's insurance liabilities as at 31 December 2017.

The valuation was conducted in accordance with generally accepted actuarial principles and in accordance with the requirements of the Insurance Act Cap 487 of the Laws of Kenya. Those principles require that prudent principles for future outgo under contracts, generally based upon the assumptions that current conditions will continue. Provision is therefore not made for all possible contingencies.

In completing the actuarial valuation, I have relied upon the audited financial statements of the Company.

In my opinion, the insurer's insurance liabilities reserves of the Company were adequate as at 31 December 2017.

Giles T Waugh, FASSA, FIA

Independent Actuarial Consultant

15 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2017

Report on audit of the financial statements

Opinion

We have audited the accompanying financial statements of APA Life Assurance Limited (the "Company"), set out on pages 32 to 71 which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements give a true and fair view of the financial position of APA Life Assurance Limited at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Key audit matter	*How our audit addressed the key audit matter*
Valuation of policy holder liabilities	
The estimation of long term policy holder liabilities was considered to be a matter of most significance to the audit as:	Our testing approach included the following procedures with the assistance of our internal actuarial specialists:
Significant judgement is involved in determining the liability because of the inherent uncertainty of future liabilities.	Validating the accuracy of the data used by the actuary by tracing the policyholder valuation input data, such as premiums, claims and expense data used in the valuation model back to information contained in the administration and accounting systems.
Certain assumptions are made in the estimation of this liability including mortality rates, expenses, interest rate, and lapses. Qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors as well as internal factors such as portfolio mix, policy conditions and claims underwriting) in order to arrive at the estimated actuarial liability that presents the likely outcome from the range of possible outcomes	Considering the methodology and assumptions used by the appointed actuary to compute the policy holder liabilities and assessing the valuation methods used against generally accepted actuarial practice and the Insurance Regulatory Authority (IRA) guidelines on valuation of technical liabilities. Comparing that the policy holder liabilities reported in the financial statements were consistent with the results of the independent actuarial valuation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APA LIFE ASSURANCE LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also: Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors. Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on page 18 is consistent with the financial statements. The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Richard Njoroge – Practising Certificate No. 1244.

Certified Public Accountants
Nairobi
15 March 2018

APA Life Term Assurance

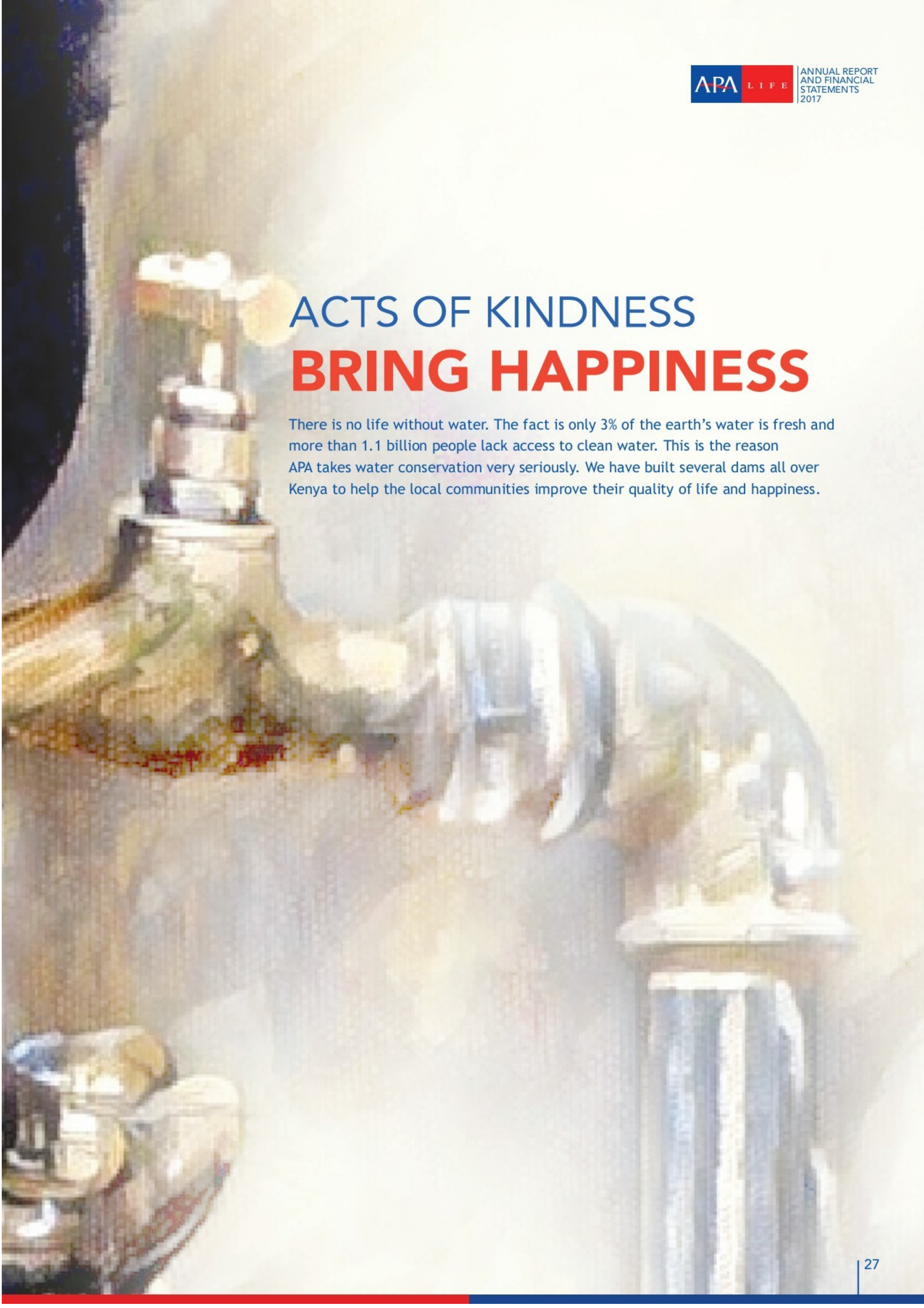
Life is your most valuable asset. With APA Life Term Assurance, it's an asset that you can use as financial security for loans. This means that it allows you invest in what makes you happy so you can create a better life for you and your loves ones.

APA, Insuring Happiness

Akiba Halisi

Financial security is one of the things we all wish for. It makes us happy to know that our money is in order. When you save for tomorrow, you are keeping you and your loved ones' futures safe.

APA, Insuring Happiness



ACTS OF KINDNESS
BRING HAPPINESS

There is no life without water. The fact is only 3% of the earth's water is fresh and more than 1.1 billion people lack access to clean water. This is the reason APA takes water conservation very seriously. We have built several dams all over Kenya to help the local communities improve their quality of life and happiness.

CORPORATE SOCIAL RESPONSIBILITY

Ashok Shah - *Apollo Group CEO pumping water from one of the finished wells.*

Overview

At APA APOLLO we understand that we have a responsibility to our society and we have made Corporate Social Responsibility (CSR) an integral part of our business culture. To underline our deep commitment to making a difference in people's lives, we are guided by an existing policy and we commit to a reasonable budgetary allocation each year to CSR initiatives.

We play a role in connecting people with each other, with other communities and key community services. The operation of our services touches on all members of the community with the potential to impact positively on their quality of life. We also operate from a significant number of properties and have responsibility to those living and working nearby as well as being a significant employer; directly employing over 400 staff.

Our relationships with the local communities we serve are therefore very important to us and are an essential part in the growth of our business. When developing our products and processes, we have a role to play in improving services for the community as a whole and not just our individual customers.

Our objective remains to support sustainable projects that uplift the standards of communities that we partner with for support.

The group's corporate social responsibility programs focus on four key pillars:

1. Sustainable clean water supply to communities
2. Empowering the youth
3. Education and health activities
4. Environment conservation.

Water conservation

APA Apollo Foundation is the umbrella Trust that is funded by APA/Apollo Group and contributes towards the construction of sand dams. The Trust has been in existence since 2006 and has constructed 17 sand dams in arid and semi-arid areas of Kenya (Machakos, Makueni and Kajiado).

The strategic goal is to enhance food security for all in society by providing communities in semi-arid areas, accessibility to reliable water supply. This is achieved by the construction of sand dams on dry river beds to harness the water that only flows during rainy seasons. The water is retained in the sand that is deposited behind the dam. An artisan well with a hand pump is provided for easy access by the community. The natural filtration through the sand gives clean drinking water that is used both for agriculture and household.

CORPORATE SOCIAL RESPONSIBILITY (continued)

Staff at a tree planting exercise

With over 5,500 households that required water, the communities partnered with APA staff members and the Utooni Development Organization; a non-government organisation that specializes in the construction of sand dams and built the three dams that will support these households in the long term.

Some of the key objectives that this project has met include:

- Enhancing water security for all in the society
- Increasing accessibility to clean water
- Increase in food supply
- Reducing commuting for long distance to fetch water for women and the children
- Ensuring that the community at large is able to participate in other income generating activities as long hours spent in fetching water have been reduced

Youth initiative programmes

(i) APA / APOLLO bursary fund

The APA bursary scheme was created to educate the top achieving boy and girl from Cheleta Primary School and hailing from Githongoro slums in the outskirts of Runda.

The bursary fund is currently in its 11th year and has 12 students in the bursary program whilst 14 have benefited over the years.

Cheleta School's overall performance has greatly improved since the bursary program was introduced with the mean score rising to above 50%. This is due to competition amongst the pupils. The bursary caters for the secondary education tuition, necessary personal effects and also the non funded university tuition.

(ii) Recreation through sports

APA promotes sporting activities by supporting the Runda Youth Sports Association (RYSA) football team. The sponsorship includes the fees for RYSA to participate in various leagues and provides the football kits, for logistics and team allowances.

The RYSA football team participates in the Nairobi County league which is under the Football Kenya Federation. Overall the team is in sixth place in a league of 13 teams. In addition, APA organizes tournaments for the team in order to boost and continue to nurture the soccer talents and positively engage the youth in Mji wa Huruma and Githongoro villages.

RYSA *football team at a recent football match*

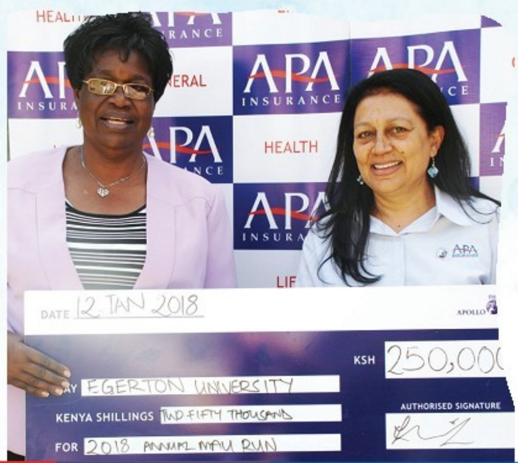
Environment conservation

Our commitment to protecting and conserving the environment is core to our business and it is our objective to plant and maintain at least 1,500 trees every year. In partnership with Egerton University, we have created the Ngongogeri Park and every year we plant 1,500 seedlings with our staff and Egerton students. We are also key partners and sponsors in the annual 'Run for Mau' marathon whose main objective is to conserve the mau forest.

Through the APA Apollo Foundation sand dam projects, we ask the benefiting communities to plant trees along the river beds to help curb soil erosion, provide food as well as beautifying the landscape. A minimum of 10 trees are allocated for planting and maintenance to each household that benefits from the sand dam.

We have also partnered with "Friends of Karura" and "Greenline Project" to plant trees in both the Karura forest and Nairobi National park in an effort to curb urban encroachement.

Environment conservation has also been embraced at departmental level by the APA staff through the annual departmental CSR activities.



Mina Shah - *presenting a cheque to Vice Chancellor of Egerton University*

APA IMARIKA

Life is full of precious moments that once gone, can never be relived. This is why you shouldn't let your search for money get in the way.
With APA Imarika, you can save towards specific goals so you can have more time to experience those precious moments.

APA, Insuring Happiness

APA PUMZISHA

The loss of a loved one is hard enough without having to worry about funeral expenses. The APA Pumzisha cover will take care of all funeral expenses, allowing your loved ones to grieve in peace.

APA, Insuring Happiness

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Long term business Shs'000	Shareholders' funds Shs'000	2017 Total Shs'000	2016 Total Shs'000
INCOME					
Gross premium income earned	3	907,579	-	907,579	725,263
Reinsurance premium ceded		(548,176)	-	(548,176)	(386,487)
Net earned premium		359,403	-	359,403	338,776
Investment income	4	376,449	37,543	413,992	310,222
Commissions earned		113,745	-	113,745	76,542
Total income		**849,597**	**37,543**	**887,140**	**725,540**
OUTGO					
Claims and policyholders' benefits	5	(568,720)	-	(568,720)	(376,333)
Operating and other expenses	6	(223,025)	(10,740)	(233,765)	(235,189)
Commissions payable		(144,357)	-	(144,357)	(127,008)
Total claims and expenses		**(936,102)**	**(10,740)**	**(946,842)**	**(738,530)**
Profit / (loss) before income tax		**(86,505)**	**26,803**	**(59,702)**	**(12,990)**
Income tax credit /(expense)	8(a)	(6,643)	-	(6,643)	(2,180)
Profit / (loss) for the year		**(93,148)**	**26,803**	**(66,345)**	**(15,170)**
OTHER COMPREHENSIVE INCOME; NET OF TAX					
Items that may be reclassified subsequently to profit or loss:					
-fair value gain /(loss) from quoted equities	12	23,919	9	23,928	(48,510)
-fair value gain /(loss) on unquoted equities	13	-	-	-	(11,744)
-fair value gain /(loss) on government securities	17(b)	12,969	3,298	16,267	(7,228)
Total other comprehensive income (loss) for the year		**36,888**	**3,307**	**40,195**	**(67,482)**
Total comprehensive (loss) /income		**(56,260)**	**30,110**	**(26,150)**	**(82,652)**
Appropriated as follows:					
-To revaluation reserves		-	3,307	3,307	(5,701)
-To retained earnings		-	26,803	26,803	24,259
-To statutory reserves		(56,260)	-	(56,260)	(101,210)
Total comprehensive income		**(56,260)**	**30,110**	**(26,150)**	**(82,652)**

The notes on pages 36 to 71 form an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017 Shs'000	2016 Shs'000
ASSETS			
Intangible asset	10	10,367	15,550
Motor vehicle and equipment	9	13,176	14,361
Investment properties	11	273,000	313,000
Quoted equity investments - available for sale	12	195,119	349,411
Unquoted equity investments	13	8,970	8,970
Life policy loans		2,240	2,055
Investment in unit trusts	14	15,729	15,209
Reinsurers' share of insurance liabilities	15	124,546	73,493
Receivables arising from direct insurance arrangements		75,358	49,888
Current income tax	8(b)	13,690	13,179
Other receivables	16	44,450	44,380
Government securities - held to maturity	17(a)	2,618,122	1,669,838
- available for sale	17(b)	658,058	733,221
Commercial paper and corporate bonds	18	185,116	145,459
Deposits with financial institutions	19	423,327	448,090
Cash and bank balances		21,492	83,313
Total assets		**4,682,760**	**3,979,417**
EQUITY AND RESERVES			
Share capital	20	550,000	450,000
Investment revaluation reserve		7,412	4,105
Retained earnings	21	(134,466)	(89,450)
Total shareholders' funds		**422,946**	**364,655**
Statutory reserve	22	23,399	7,840
Total shareholders' funds and statutory reserves		**446,345**	**372,495**
LIABILITIES			
Insurance contract liabilities	23	984,800	862,532
Payables under deposit administration contracts	25	3,115,339	2,601,453
Payables arising from reinsurance arrangements		22,297	51,437
Other payables	26	103,952	88,116
Deferred income tax	27	10,027	3,384
Total liabilities		**4,236,415**	**3,606,922**
Total equity and liabilities		**4,682,760**	**3,979,417**

The financial statements on pages 32 to 71 were approved and authorised for issue by the board of directors on 15 March 2018 and were signed on its behalf by:

Daniel Ndonye
Director

Ashok Shah
Director

The notes on pages 36 to 71 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital Shs'000	Invest-ment Re-valuations Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Sharehold-ers' funds Shs'000	Statutory reserves Shs'000	Total Share-holder and statutory reserve Shs'000
Balance as at 1 January 2016	**450,000**	**9,806**	**(23,709)**	**-**	**436,097**	**19,050**	**455,147**
Total comprehensive in-come for the year	-	(5,701)	24,259	-	18,558	(101,210)	(82,652)
Transfer from shareholders to long-term business	-	-	(90,000)	-	(90,000)	90,000	-
Balance as at 31 December 2016	**450,000**	**4,105**	**(89,450)**	**-**	**364,655**	**7,840**	**372,495**
Balance as at 1 January 2017	**450,000**	**4,105**	**(89,450)**	**-**	**364,655**	**7,840**	**372,495**
Issue of new shares	100,000	-	-	-	100,000	-	100,000
Total comprehensive in-come for the year	-	3,307	26,803	-	30,110	(56,260)	(26,150)
Transfer from shareholders to long-term business	-	-	(71,819)	-	(71,819)	71,819	-
Balance as at 31 December 2017	**550,000**	**7,412**	**(134,466)**	**-**	**422,946**	23,399	**446,345**

The notes on pages 36 to 71 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Cash generated from operations	28 (a)	109,071	189,178
Interest received	4	367,448	277,838
Tax paid	8 (b)	(511)	(1,513)
Net cash inflow from operating activities		**476,008**	**465,503**
Cash flows from investing activities			
Purchase of equipment	9	(4,371)	(4,414)
Proceeds from disposal of fixed assets		465	-
Proceeds from disposal of quoted shares		253,983	250,842
Proceeds from disposal of investment property	11	47,000	-
Purchase of quoted shares	12	(75,969)	(31,366)
Net investment in unit trusts		(520)	17,531
Net policy loans recovered/(advanced)		(185)	376
Net investment in corporate bonds		(39,657)	4,470
Net investment in government securities		(843,338)	(1,147,900)
Net cash outflow from investing activities		**(662,592)**	**(910,461)**
Cash flows from financing activities			
Issue of new shares	20	100,000	-
Net cash inflow from financing activities		**100,000**	**-**
Decrease in cash and cash equivalents		**(86,584)**	**(444,958)**
Movement in cash and cash equivalents :			
At start of year		531,403	976,361
Decrease during the year		(86,584)	(444,958)
At end of year	**28 (b)**	**444,819**	**531,403**

The notes on pages 36 to 71 form an integral part of these financial statements

ACCOUNTING POLICIES

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements of APA Life Assurance Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for investment properties, investments in unit trusts and available-for-sale financial assets which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1 (t).

(b) Changes in accounting policy and disclosures

i) New and amended standards adopted by the Company

The following standards and amendments have been applied by the Company for the first time for the financial year beginning 1 January 2017:

Amendments to IAS 7; Effective 1 January 2017, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and on cash changes such as acquisitions, disposals, accretion of interest and unrealized exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities. Entities may include changes in other items as part of this disclosure, for example, by providing a net debt reconciliation. However, in this case the changes in other items must be disclosed separately from the changes in liabilities arising from financing activities. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

Amendments to IAS 12: Income taxes, Recognition of deferred tax assets for unrealised losses – effective 1 January 2017. The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

The adoption of these amendments did not have any material impact on the current period or any prior period and is not likely to affect future periods.

(ii) New standards and interpretations issued but not yet effective for 31 December 2017 year-end

The Company has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2017.

- IFRS 9 Financial Instruments (issued in July 2014) – This standard will replace IAS 39 (and all the previous versions of IFRS 9) effective for annual periods beginning on or after 1 January 2018. It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition:

- IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

b) Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations issued but not yet effective for 31 December 2017 year-end (continued)

- For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
- For the impairment of financial assets, IFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.
- For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non¬financial risk exposures.
- The derecognition provisions are carried over almost unchanged from IAS 39.

APA Life Assurance Limited has done the assessment of IFRS 9's full impact and expect the following impact on implementation:

The standard will affect the classification and measurement of financial assets held as 1 January 2018 as follows:

- Equity investments - the Company holds quoted and unquoted equities as available for sale through other comprehensive income. The intention is to continue to be measured at Fair value though other comprehensive income (FVTOCI).
- Government Securities classified as available-for-sale investments carried at fair value are held with a business model whose objective is to collect contractual cash flows and selling the instruments in the open market. The directors intention is to continue measuring these instruments at FVTOCI upon the application of IFRS 9,
- Government securities, Commercial Paper Corporate Bonds and Life policy loans are held to maturity with a business model whose objective is to collect contractual cash flows by sole payments of principal and interest. The intention is to measure these at amortised cost under IFRS 9.
- Receivables arising out of direct insurance and reinsurance arrangements will continued to be measured at FVTPL under IFRS 9.

Financial assets measured at amortized cost under IFRS 9 will be subject to the impairment provision of IFRS 9.

The Company will apply the simplified approach to recognize lifetime expected credit losses for its receivables arising out of direct and reinsurance arrangements and Life policy loans. Government Securities, Deposits with financial institutions and Commercial papers and corporate bonds are considered to have low credit risk and hence expect to recognize 12-month expected credit losses for these items.

The Company will apply the new rules retrospectively from 1 January 2018. Comparatives for 2017 will not be restated, the impact of the implementation will be adjusted in the opening retained earnings. Initial assessment shows that impact of impairment charges will be between 4% and 8% of the total value of closing retained earnings as of 31 December 2017.

- Amendments to IFRS 4 Insurance Contracts (issued in September 2016) - The amendments, applicable to annual periods beginning on or after 1 January 2018, include a temporary exemption from IFRS 9 for insurers that meet specified criteria and an option for insurers to apply the overlay approach to designated financial assets.

- IFRS 17 Insurance Contracts (issued in May 2017) - establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts

- IFRS 16 Leases (issued in January 2016) - The new standard, effective for annual periods beginning on or after 1 January 2019, introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(b) changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations issued but not yet effective for 31 December 2017 year-end (continued)

recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus can direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company's main activity is insurance (underwriting individual life and super annuation) business.

  Insurance contracts are excluded from the scope of IFRS 15. Consequently, the impact of IFRS 15 to the Company will not be significant.

- Amendment to IFRS 1 (Annual Improvements to IFRSs 2014–2016 Cycle, issued in December 2016) - The amendment, applicable to annual periods beginning on or after 1 January 2018, deletes certain short-term exemptions and removes certain reliefs for first-time adopters.

- Amendments to IAS 40 titled Transfers of Investment Property (issued in December 2016) – The amendments, applicable to annual periods beginning on or after 1 January 2018, clarify that transfers to or from investment property should be made when, and only when, there is evidence that a change in use of property has occurred.

  The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, with the exception of IFRS 9, IFRS 16 and IFRS 17, they do not expect that there will be a significant impact on the Company's financial statements. There are no other standards that are not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on near future transactions

  There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(c) Revenue recognition

For long term insurance business, premiums are recognised as revenue when they become payable by the policyholder. For single premium business, revenue is recognised on the date on which the policy is effective. Premiums are shown before deduction of commission.

Commissions receivable are recognised as income in the period in which they are earned.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividends receivable are recognised as income in the period in which the right to receive payment is established.

Rental income from operating leases is recognised on a straight line basis over the term of the lease.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(d) Claims incurred

Claims and policyholders' benefits payable comprise claims paid in the year and changes in the provision for insurance contract liabilities. Claims are recorded as an expense when they are incurred. Claims arising on maturing policies are recognised when the claims becomes due for payment. Death claims are accounted for on notification while surrenders are accounted for on payment.

(e) Deposit administration contracts

The Company administers the funds of a number of retirement benefit schemes. The Company's liabilities in relation to these schemes have been treated as payables in the statement of financial position. The liabilities with respect to the deposit administration contracts are determined by the Consulting Actuary on an annual basis.

(f) Insurance contract liabilities

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did occur.

Insurance contract liabilities represent the estimated ultimate cost of settling all claims arising from incidents occurring prior to the end of the reporting period, but not settled at that date. Insurance contract liabilities are computed on the basis of the best information available at the time the records for the year are closed, and include provisions for claims intimated but not paid. Insurance contract liabilities are not discounted.

(g) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as income in the same manner as they would be if the reinsurance were considered direct business. Premiums ceded and claims reimbursed are presented on a gross basis in profit and loss and statement of financial position as appropriate. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recognised in the profit or loss.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(h) Equipment

All equipment are initially recorded at cost less depreciation and any accumulated impairment losses. The useful lives used in determining depreciation charge are:

Computer equipment	3 years
Motor vehicles	4 years
Furniture fittings and equipment	8 years

The residual values of items of equipment and their estimated useful lives are reviewed at the reporting date and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts.

(i) Intangible assets – Computer software

Intangible assets comprise of computer software costs which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated to write off the cost of computer software on a straight line basis over its estimated useful life of five years.

(j) Investment properties

Investment properties comprises land and buildings held to earn rentals and/or for capital appreciation. They are carried at fair value, determined at the reporting date by valuation experts with experience and knowledge of the locations where the properties are located. Fair value is based on active market prices as adjusted, if necessary, for any difference in the nature, condition or location of the specific asset.

Investment properties are not subject to depreciation. Changes in their carrying amount between end of reporting periods are dealt with, through profit or loss for the year. Upon disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss for the year.

(k) Financial Instruments

Financial Assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification adopted for a particular investment depends on the purpose for which the investment was acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting period end.

i) Financial assets at fair value through profit or loss ("FVTPL")

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified into this category at inception if acquired principally for the purpose of selling in the year, if it forms part of a portfolio of financial assets in which there is evidence of profit-taking or if so designated by management.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(k) Financial Instruments (continued)

iii) Held-to-maturity financial assets continued

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities – other than those that meet the definition of loans and receivables – that the Company's management has the positive intention and ability to hold to maturity.

iv) Available-for-sale financial assets

This classification represents financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Recognition of financial assets

Financial assets are initially recognised cost plus transaction costs. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are dealt with in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised through other comprehensive income and accumulated under a separate heading of fair value reserve in the statement of changes in equity, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognised through other comprehensive income is recognised in the profit or loss for the year.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated cash receipts including all fees, transaction costs and premiums or discounts through the expected life of the financial asset, or, where appropriate, a shorter period.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment for receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as income in the profit and loss account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; orit transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the company

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(k) Financial Instruments (continued)

Classification as debt or equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortized cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This includes listed equity securities and quoted debt instruments on major exchange (NSE). The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive.
For example a market is inactive when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the dates of the statement of financial position.

Fair values are categorized into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(l) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency').The financial statements are presented in Kenya shillings rounded to the nearest thousand ("Shs"), which is the Company's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within finance income or costs'. All other foreign exchange gains and losses are presented in the statement of profit or loss within other (losses)/gains.

(m) Accounting for leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the Company as a lessee are classified as finance leases. All other leases are classified as operating leases. Payments made under operating leases are charged to profit or loss for the year on the straight-line basis over the term of the lease.

(n) Employee entitlements

Employee entitlements to long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(o) Income tax expense

Income tax expense is the aggregate amount charged/(credited) in respect of current income tax and deferred income tax in determining the profit or loss for the year. Tax is recognised in the profit or loss except when it relates to items recognised in other comprehensive income, in which case it is also recognised in other comprehensive income, or to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax asset

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit nor loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realized or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilized.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(p) Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The assets of the scheme are held in a separate trustee administered fund, which is funded from contributions from both the Company and employees. Contributions are determined by the rules of the scheme.

The Company also contributes to the statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions to this scheme are determined by local statute. The Company's obligations to these schemes are charged to profit or loss in the year they fall due.

(q) Dividend distribution

Dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the year in which the dividends are approved by the shareholders.

(r) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received over and above the par value of the shares issued are classified as 'share premium' in equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(s) Bonus stabilisation reserve

The bonus stabilisation reserve represents amount of surplus set aside to allow for smoothening of return of interest declaration for the deposit administration schemes based on the recommendation of the independent actuarial consultant.

(t) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical judgements in applying companies accounting policies

The key areas of judgment in applying the Company's accounting policies are dealt with as follows:

Future benefit payments from long-term insurance contracts

The estimation of future benefit payments from long-term insurance contracts is one of the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

ACCOUNTING POLICIES (continued)

1. Summary of significant accounting policies (continued)

(t) Critical accounting judgements and key sources of estimation uncertainty (continued)

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Company. Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard mortality tables that reflect historical mortality experience. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics such as AIDS could result in future mortality being significantly worse than in the past for the age Company's in which the Company has significant exposure to mortality risk.

However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Company is exposed to longevity risk. For contracts without fixed terms and with discretionary participation in profits, it is assumed that the Company will be able to increase mortality risk charges in future years in line with emerging mortality experience. Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. The average estimated rate of investment return is 12.0%p.a. (2015: 12.00% p.a)

Held-to-maturity investments

The Company follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the Company fails to hold these investments to maturity other than for the specific circumstances - for example, selling more than an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

Key sources of estimation uncertainty

Impairment losses

At the reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Equipment

Critical estimates are made by the Company's directors, in determining depreciation rates and useful lives for equipment

We always put our customers first, that's why the judges picked us first.

APA is the Most Awarded Insurer
at the 2017 Annual Insurance Awards.

Winner

- Best in Claim Settlement (Life)
- Fraud Detection & Protection
- Major Loss Award
- Training Award
- Best in Customer Satisfaction Index

1st Runners Up

- Best in Product Marketing
- Best in Product Innovation
- Best Insurance in Use of Technological Application

2nd Runners Up

- Best in Claim Settlement (General)
- Risk Management Award
- Socially Responsible Corporate

APA ELIMU

Good education comes at a price. The APA Elimu cover allows you to build an education fund for your children, allowing you to secure a happy future for them.

APA, Insuring Happiness

NOTES TO THE FINANCIAL STATEMENTS

1 Incorporation and registered office

APA Life Assurance Limited is a limited liability company incorporated in Kenya under the Kenyan Companies Act and domiciled in Kenya. The parent company, which is the ultimate holding company is Apollo Investments Limited which is incorporated in Kenya. The address of its registered office is 07Apollo Centre, Ring Road Parklands, Westlands, Nairobi.

2 Risk management objectives and policies

The Company's activities expose it to a variety of risks, including insurance risk, financial risk, credit risk, and the effects of changes in property values, debt and equity market prices, foreign currency exchange rates and interest rates. The Company's overall risk management programme focuses on the identification and management of risks and seeks to minimize potential adverse effects on its financial performance, by use of underwriting guidelines and capacity limits, reinsurance planning, credit policy governing the acceptance of clients, and defined criteria for the approval of intermediaries and reinsurers. Investment policies are in place which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk. The Company manages key risks as follows:

2.1 Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability of the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio.

The Company has developed its insurance underwriting and investment strategy to diversify the type of risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical, local and type of industry covered.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. It manages these positions within an asset-liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The Company produces regular reports at portfolio, legal entity and asset and liability class level that are circulated to the Company's key management personnel. The principal technique of the Company's ALM framework is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders. Separate portfolios of assets are maintained for with-profit business, non-linked non-profit business, and unit-linked business. For the purposes of the ALM framework, the Company does not manage the fund for future appropriations as a liability. The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how insurance risks are managed using the categories utilized in the Company's ALM framework.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 Insurance risk management (continued)

The Company engages in long-term insurance contracts and funds the insurance liabilities with a portfolio of equity and debt securities exposed to market risk. An analysis of the Company's financial assets and its long term insurance liabilities is presented below:

	2017	2016
Financial assets	**Shs'000**	**Shs'000**
Debt securities:		
- Government securities - held to maturity	2,618,122	1,669,838
- Government securities - available for sale	658,058	733,221
- Commercial paper & corporate bonds	185,116	145,459
- Investment in unit trusts	15,729	15,209
Equity securities:- listed	195,119	349,411
- unlisted	8,970	8,970
Receivables from reinsurance share of liability	124,546	73,493
Receivables arising from direct insurance arrangements	75,358	49,888
Other receivables	44,450	44,380
Life policy loans	2,240	2,055
Deposits with financial institutions	423,327	448,090
Cash and bank balances	21,492	83,313
Total	**4,372,527**	**3,623,327**
Financial liabilities		
Insurance contracts liabilities	984,800	862,532
Payable under deposit administration contracts	3,115,339	2,601,453
Payables arising from reinsurance contracts	22,297	51,437
Total	**4,122,436**	**3,515,422**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.1 Insurance risk management (continued)

Under certain contracts, the Company has offered guaranteed annuity options. In determining the value of these options, estimates have been made as to the percentage of contract holders that will exercise them. There is not enough historical information available on which to base these estimates.

The table below shows the contractual timing of undiscounted cash flows arising from assets and liabilities included in the company's ALM framework for management of long term insurance contracts movement as at 31 December 2017.

	Total Shs'000	No stated maturity Shs'000	0-1 year Shs'000	1-5 years Shs'000	>5 years Shs'000
Financial assets					
Debt securities:					
- Government bonds and treasury bills fixed rate					
- Held to maturity	2,618,122	-	643,612	355,839	1,618,671
- Available for sale	658,058	658,058	-	-	-
Listed securities-fixed rate	185,116	-	8,936	176,180	-
Equity securities:					
- Listed	195,119	195,119	-	-	-
- Unlisted	8,970	8,970	-	-	-
Investment in unit trusts	15,729	-	-	15,729	-
Life policy loans and receivables from reinsurance contracts	126,786	124,546	2,240	-	-
Receivables arising from direct insurance arrangements	75,358	-	75,358	-	-
Other receivables	44,450	-	44,450	-	-
Cash and cash equivalents	444,819	-	444,819	-	-
Total	**4,372,527**	**986,693**	**1,219,415**	**547,748**	**1,618,671**
Liabilities:					
Insurance contracts	984,800	35,000	187,111	490,116	272,573
Payables arising from reinsurance arrangements	22,297	-	22,297	-	-
Payables under deposit insurance contracts	3,115,339	3,115,339	-	-	-
Total	**4,122,436**	**3,150,339**	**209,408**	**490,116**	**272,573**
Difference in contractual cash flows	**250,091**	**(2,163,646)**	**1,010,007**	**57,632**	**1,346,098**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.1 Insurance risk management (continued)

The table below shows the contractual timing of discounted cash flows arising from assets and liabilities included in the company's Asset Liability Management framework for management of long term insurance contracts movement as at 31 December 2016.

	Total	No stated maturity	0-1 year	1-5 years	>5 years
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Financial assets					
Debt securities:					
- Government bonds and treasury bills fixed rate					
- Held to maturity	1,669,838	-	421,030	170,914	1,077,894
- Available for sale	733,221	733,221	-	-	-
Listed securities-fixed rate	145,459	-	4,375	141,084	-
Equity securities:					
- Listed	349,411	349,411	-	-	-
- Unlisted	8,970	8,970	-	-	-
Investment in unit trusts	15,209	-	-	15,209	-
Life policy loans and receivables from reinsurance contracts	75,548	73,493	2,055	-	-
Receivables arising from direct insurance arrangements	49,888	-	49,888	-	-
Other receivables	44,380	-	44,380	-	-
Cash and cash equivalents	531,403	-	531,403	-	-
Total	**3,623,327**	**1,165,095**	**1,053,131**	**327,207**	**1,077,894**
Liabilities:					
Insurance contracts	862,532	35,000	163,489	428,808	235,235
Payables arising from reinsurance arrangements	51,437	-	51,437	-	-
Payables under deposit insurance contracts	2,601,453	2,601,453	-	-	-
Total	**3,515,422**	**2,636,453**	**214,926**	**428,808**	**235,235**
Difference in contractual cash flows	**107,905**	**(1,471,358)**	**838,205**	**(101,601)**	**842,659**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk management

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company primarily faces due to the nature of its investments and liabilities are interest rate risk and equity price risk.

(a) Market risks

(i) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that claims costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Insurance and non-profit investment contracts have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits is usually a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the liabilities to policyholders under insurance and investment contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. This is calculated in a consistent manner with the prior year. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For the guaranteed element of liabilities under with-profits contracts, changes in interest rate will not cause a change to the amount of the liability because their carrying amounts are not affected by the level of market interest rates. However the with profits element of the liabilities is directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the with-profits funds.

The Company's management monitors the sensitivity of reported interest rate movements on a monthly basis by assessing the expected changes in the different portfolios.

Interest bearing securities represent 95% (2016: 89%) of total investments. If interest rates in market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's investments moving according to the historical correlation with the index, income would increase / decrease by Shs 194 million (2016: Shs 149 million).

(ii) Equity price risk

The Company is exposed to equity securities price risk as a result of its holdings in equity investments, classified as financial assets available for sale. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the Nairobi Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk management (continued)

(a) Market risks (continued)

(ii) Equity price risk (continued)

The Company has a defined investment policy which sets limits on the Company's exposure to equities both in aggregate terms and by geography, industry and counterparty. This policy of diversification is used to manage the company's price risk arising from its investments in equity securities. Investment management meetings are held daily. At these meetings, senior investment managers meet to discuss investment return and concentration across the company.

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Listed equities securities represent 96% (2016: 97%) of total equity investments. If equity market indices had increased / decreased by a further 5%, with all other variables held constant, and all the company's equity investments moving according to the historical correlation with the index, equity would increase / decrease by Shs 9.7 million (2016: Shs 17.4 million).

(iii) Currency risk

Foreign currency exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The Company primarily transacts in the Kenya shilling and its assets and liabilities are denominated in the same currency. The company is therefore not exposed to currency risk.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the company is exposed to credit risk are:

- reinsurers' share of insurance liabilities and reserves;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries;
- amounts due from corporate bond issuers and
- amount held with financial institutions - under cash and cash equivalents

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparties and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved quarterly by the board of directors.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company of its liability as the primary insurer. If a reinsurer fails to pay a claim, the company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalization of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk management (continued)

(b) Credit risk (continued)

Management information reported to the directors include details of provisions for impairment on receivables and subsequent write offs. Internal audit makes regular reviews to assess the degree of compliance with the company's procedures on credit. Exposures to individual policyholders and groups of policyholders are within the ongoing monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders or homogenous groups of policyholders, a financial analysis is carried out by the management. The Company's assets bearing credit risk are summarized below:

	2017	2016
	Shs '000	Shs '000
Investment in unit trust	15,729	15,209
Government securities	3,276,180	2,403,059
Reinsurers share of insurance liabilities	124,546	73,493
Receivables arising from direct insurance arrangements	75,358	49,888
Life policy loans	2,240	2,055
Other receivables	44,450	33,070
Corporate bonds and commercial paper	185,116	145,459
Deposits with financial institutions	423,327	448,090
Cash and bank	21,492	83,313
Total assets bearing credit risk	**4,168,438**	**3,253,636**

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. The amounts that are past due and not impaired are as shown below:

Receivables arising from direct insurance arrangements	75,358	49,888
Life policy loans	2,240	2,055
Other receivables	44,450	33,070
Total assets past due but not impaired	**122,048**	**85,013**

The assets reported above include Shs 15.7 million (2016: Shs 15.2 million) related to the assets backing unit linked contracts. The holders of these contracts bear the credit risk arising from these assets. The assets above also include assets held in the with-profits funds where the company is able to transfer part of the credit risk arising from these assets to holders of with-profits investment and insurance contracts to the extent that the future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks). During the year, there was no financial assets that were impaired.

(c) Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations as they fall due. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The projected settlement of these liabilities is modelled, on a regular basis, using actuarial techniques. The board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.2 Financial risk management (continued)

(c) Liquidity risk (continued)

The table below provides the contractual maturity analysis of the Company's financial liabilities at 31 December 2017:

	No stated maturity	Less than 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	35,000	187,111	762,689	984,800
Payables under deposit insurance contracts	3,115,339	-	-	3,115,339
Payables arising out of reinsurance arrangements	22,297	-	-	22,297
Other payables	103,952	-	-	103,952

The table below provides a contractual maturity analysis of the company's financial liabilities as at 31 December 2016:

	No stated maturity	Less than 1 year	More than 1 year	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Insurance contract liabilities	35,000	163,489	664,043	862,532
Payables under deposit insurance contracts	2,601,453	-	-	2,601,453
Payables arising out of reinsurance arrangements	51,437	-	-	51,437
Other payables	88,116	-	-	88,116

(d) Unit-linked contracts

For unit-linked contracts, the Company matches all the liabilities with assets in the portfolio in which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts

2.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.3 Fair value hierarchy

The following table presents the company's financial assets measured at fair value at 31 December 2017 and 31 December 2016

	Level 1	Level 2	Level 3	Total
31 December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Available for sale				
- Government securities	658,058	-	-	658,058
- Quoted equities	195,119	-	-	195,119
- Unquoted equities	-	8,970	-	8,970
Total	**853,177**	**8,970**	**-**	**862,147**
31 December 2016				
Available for sale				
- Government securities	733,221	-	-	733,221
- Quoted equities	349,411	-	-	349,411
- Unquoted equities	-	8,970	-	8,970
Total	**1,082,632**	**8,970**	**-**	**1,091,602**

There were no transfers between levels 1 and 2 during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Nairobi Securities Exchange ("NSE") equity investments and government bonds classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments. There was no movement in level 3 during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.3 Fair value hierarchy (continued)

	Held to maturity	Loans and receivables	Available-for-sale	Total carrying amount	Fair values
As at 31st December 2017	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets					
Quoted equities for various companies	-	-	195,119	195,119	195,119
Unquoted investments	-	-	8,970	8,970	8,970
Investments in Government securities	2,618,122	-	658,058	3,276,180	3,276,180
Reinsurance share of liabilities	-	124,546	-	124,546	124,546
Receivable arising from direct insurance arrangements	-	75,358	-	75,358	75,358
Commercial Paper & Corporate Bonds	185,116	-	-	185,116	185,116
Investment in Unit Trust	-	-	15,729	15,729	15,729
Life policy loans	-	2,240	-	2,240	2,240
Other receivables	-	44,450	-	44,450	44,450
Cash and short term deposits	-	444,819	-	444,819	444,819
Total assets	**2,803,238**	**691,413**	**877,876**	**4,372,527**	**4,372,527**
Liabilities					
Insurance contract liabilities	984,800	-	-	984,800	984,800
Payable under deposit administration contracts	3,115,339	-	-	3,115,339	3,115,339
Payable arising from reinsurance arrangement	-	22,297	-	22,297	22,297
Other Payables and accruals	-	103,952	-	103,952	103,952
Total Liabilities	**4,100,138**	**126,249**	**-**	**4,226,388**	**4,226,388**
As at 31st December 2016					
Assets					
Quoted equities for various companies	-	-	349,411	349,411	349,411
Unquoted investments	-	-	8,970	8,970	8,970
Investments in Government securities	1,669,838	-	733,221	2,403,059	2,403,059
Reinsurance share of liabilities	-	73,493	-	73,493	73,493
Receivable arising from direct insurance arrangements	-	49,888	-	49,888	49,888
Commercial Paper & Corporate Bonds	145,459	-	-	145,459	145,459
Investment in Unit Trust	-	-	15,209	15,209	15,209
Life policy loans	-	2,055	-	2,055	2,055
Other receivables	-	44,380	-	44,380	44,380
Cash and short term deposits	-	531,403	-	531,403	531,403
Total assets	**1,815,297**	**701,219**	**1,106,811**	**3,623,327**	**3,623,327**
Liabilities					
Insurance contract liabilities	862,532	-	-	862,532	862,532
Payable under deposit administration contracts	2,601,453	-	-	2,601,453	2,601,453
Payable arising from reinsurance arrangement	-	51,437	-	51,437	51,437
Payables and accruals	-	88,116	-	88,116	88,116
Total financial liabilities	**3,463,985**	**139,553**	**-**	**3,603,538**	**3,603,538**

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.4 Capital risk management

The Company maintains an efficient capital structure from a combination of equity shareholders' funds and borrowings, consistent with the company's risk profile, the regulatory and market requirements of its business.

The Company is subject to a number of regulatory capital tests and also employ a number of realistic tests to allocate capital and manage risk.

In reporting the Company's financial strength, capital and solvency is measured using the regulations prescribed by the Insurance Regulatory Authority (IRA). These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the company.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support business growth;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposures to movement in exchange rate

An important aspect of the Company's overall capital management process is the setting of target risk-adjusted rates of return for individual business units, which are aligned to performance objectives and ensure that the Company is focused on the creation of value for shareholders.

The Company has a number of sources of capital available to it and seeks to optimise its debt to equity structure in order to ensure that it can consistently maximise returns to shareholders. The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Insurance Regulatory Authority in Kenya and as such, is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Risk management objectives and policies (continued)

2.4 Capital risk management (continued)

The Kenya Insurance regulatory authority has also introduced Risk Based Capital model which will result in risk based approach to supervision. In line with risk based methodology, IRA has developed a Risk Based Capital (RBC) model, which is aimed at introducing capital requirements that are commensurate to the levels of risk being undertaken, and provide appropriate incentives for good risk management. The RBC model is a factor based model that computes the capital requirement based on four risk segments: insurance, market, credit and operational risk.

The new capital requirement (Risk Based Capital) were introduced in the Finance Act, 2015. Insurance companies are required to hold paid up capital by the 30th June 2020; the higher of:-

(i). Shs 400 million; or
(ii). risk based capital determined by the Insurance Regulatory Authority (IRA) from time to time; or
(iii). 5% of the liabilities of the life business for the financial year.

The Capital Adequacy ratio of the Company as at 31 December 2017 and 2016 is illustrated below.

	2017 Shs'000	2016 Shs'000
Available Capital	422,802	342,584
Required Capital	400,000	400,000
Capital Adequacy Ratio	106%	86%
Minimum Required Capital Adequacy Ratio	100%	100%

3 Gross earned premium income

The Company is organised into two main divisions, ordinary life and group life business. Long term business relates to the underwriting of risks relating to death of an insured person, and includes contracts subject to the payment of premiums for a term dependent on the termination or continuance of the life of an insured person. The premium income of the Company is analysed between the main classes of business as shown below:

Class of business	2017 Shs '000	2016 Shs '000
Ordinary life	77,583	63,476
Group life	829,996	661,787
Total	**907,579**	**725,263**

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Investment income

	Long-term business Shs '000	Shareholders business Shs '000	2017 Total Shs '000	2016 Total Shs '000
Interest from government securities	308,793	34,496	343,289	204,522
Bank deposit interest	22,117	2,042	24,159	74,833
Rental income from investment properties	12,185	-	12,185	3,934
Dividends received from equity investments	9,792	104	9,896	28,370
Fair value gain on investment properties (Note 11)	7,000	-	7,000	18,000
Loss on sale of quoted equities	(251)	448	197	(23,491)
Gain on sale of government securities	13,113	-	13,113	1,620
Other income	3,700	453	4,153	2,434
Total	**376,449**	**37,543**	**413,992**	**310,222**

5 Claims and policy holders benefits payable

	2017 Total Shs '000	2016 Total Shs '000
Life and death claims	154,739	133,801
Surrenders and annuity payments	60,860	57,230
Maturities	18,556	20,603
Increase/(decrease) in actuarial value of insurance contract liabilities	74,243	(6,670)
Interest declared on deposit administration contracts	260,322	171,369
Total	**568,720**	**376,333**

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Operating and other expenses

	Long term business Shs '000	Shareholders business Shs '000	2017 Total Shs '000	2016 Total Shs '000
Employee benefit expense (Note 7)	118,652	-	118,652	114,666
Auditors' remuneration	2,463	-	2,463	2,286
Directors emoluments – fees	3,773	-	3,773	3,409
Depreciation (Note 9)	-	5,556	5,556	7,143
Amortization (Note 10)	-	5,184	5,184	5,184
Repairs and maintenance expenditure	11,039	-	11,039	10,897
Rent of office space	16,134	-	16,134	15,199
Advertising and promotion	16,927	-	16,927	11,734
Professional fees	5,760	-	5,760	8,561
Business levies and taxes	4,306	-	4,306	7,619
Insurances costs	12,186	-	12,186	10,141
Travelling, motor vehicle and accommodation	3,264	-	3,264	3,469
License and subscriptions	1,181	-	1,181	947
Training and seminars	3,349	-	3,349	2,448
Communication	3,338	-	3,338	3,691
Printing & stationery	2,423	-	2,423	2,580
Other Board expenses	2,474	-	2,474	2,115
Other expenses	15,756	-	15,756	23,100
Total	**223,025**	**10,740**	**233,765**	**235,189**

7 Employee benefit expense

	Long term business Shs '000	Shareholders business Shs '000	2017 Total Shs '000	2016 Total Shs '000
Salaries and wages	101,115	-	101,115	97,474
Social security benefit costs	230	-	230	230
Retirement benefit costs	17,307	-	17,307	16,962
Total	**118,652**	**-**	**118,652**	**114,666**

The Company had 56 employees as at 31 December 2017 (2016: 52)

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Current income tax

	Long-term business Shs '000	Shareholders business Shs '000	2017 Total Shs '000	2016 Total Shs '000
(a) Current income tax expense				
Current income tax	-	-	-	-
Deferred income charge /(credit) (Note 27)	6,643	-	6,643	2,180
Income tax expense	-	-	6,643	2,180
Reconciliation of current income tax:				
Profit /(loss) before tax	(86,505)	26,803	(59,702)	(12,990)
Income tax calculated at a tax rate of 30% (2016: 30%)	(25,951)	8,041	(17,911)	(3,897)
Effect of income not subject to tax	25,951	10,283	36,234	4,720
Effect of expenses not deductible for tax	-	3,222	3,222	38,850
Tax on transfer to long-term business	-	(21,546)	(21,546)	(27,000)
Deferred income tax (Note 27)	6,643	-	6,643	2,180
Income tax expense	6,643	-	6,643	2,180

(b) Taxation recoverable

	Long-term business Shs '000	Shareholders business Shs '000	2017 Total Shs '000	2016 Total Shs '000
At 1 January	-	(13,179)	(13,179)	(11,666)
Tax paid during the year	-	(511)	(511)	(1,513)
Current taxation charge (Note 8(a))	-	-	-	-
At 31 December	-	(13,690)	(13,690)	(13,179)

NOTES TO THE FINANCIAL STATEMENTS (continued)

9 Motor vehicle and equipment

	Motor vehicle	Computers	Furniture, fittings & equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000
At cost:				
At 1 January 2016	6,561	17,310	15,981	39,852
Additions	-	2,736	1,678	4,414
At 31 December 2016	6,561	20,046	17,659	44,266
At 1 January 2017	6,561	20,047	17,658	44,266
Additions	1,175	2,860	336	4,371
Disposal	(630)	-	-	(630)
At 31 December 2017	7,106	22,907	17,994	48,007
Depreciation:				
At 1 January 2016	5,270	11,426	6,066	22,762
Charge for the year	500	4,659	1,984	7,143
At 31 December 2016	5,770	16,085	8,050	29,905
At 1 January 2017	5,770	16,085	8,050	29,905
Charge for the year	524	3,196	1,836	5,556
Disposal	(630)	-	-	(630)
At 31 December 2017	5,664	19,281	9,886	34,831
Net book value:				
At 31 December 2017	**1,442**	**3,626**	**8,108**	**13,176**
At 31 December 2016	**791**	**3,961**	**9,609**	**14,361**

10 Intangible asset

	2017 Shs '000	2016 Shs '000
At 1 January	15,550	20,734
Amortization	(5,183)	(5,184)
At 31 December	10,367	15,550

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Investment properties

	2017 Shs '000	2016 Shs '000
At 1 January	313,000	295,000
Disposal	(47,000)	-
Fair value gain	7,000	18,000
At 31 December	273,000	313,000

Investment properties were last revalued on 31 December 2017, by Axis Real Estate Limited, independent valuers, on the basis of open market value for existing use.

The table below analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

At 31 December 2017	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Investment property	-	273,000	-	273,000
At 31 December 2016				
Investment property	-	313,000	-	313,000

Valuation technique used to derive level 2 fair values

Level 2 fair value of land and building has been derived using the sales comparison approach. Sales prices of comparable land and buildings in close proximity are adjusted for differences in key attributes such as property size and location.

12 Quoted equity investments

Available for sale

	2017 Shs '000	2016 Shs '000
At 1 January	349,411	630,648
Additions	75,969	31,366
Reclassification from unquoted equities (Note 13)	-	10,240
Disposals	(254,189)	(274,333)
Fair value (gain)/losses	23,928	(48,510)
At 31 December	195,119	349,411

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 Unquoted equity investments

Available for sale

	2017 Shs'000	2016 Shs'000
At 1 January	8,970	30,954
Reclassification to quoted equities (Note 12)	-	(10,240)
Fair value loss	-	(11,744)
At 31 December	8,970	8,970

Investments in unquoted shares are carried at fair value based on the available market values at close of business on 31 December.

14 Investment in unit trusts

	2017 Shs'000	2016 Shs'000
At 1 January	15,209	32,740
New additions	473	407
Fair value gain/(loss) on revaluation	47	(17,938)
At 31 December	15,729	15,209

Unit linked investment contracts designated as financial assets at fair value through profit or loss. These funds are managed by Apollo Asset Management Company Limited. The benefits offered under the contract are based on the return of the portfolio of equities and debt securities. The matching financial liabilities are included under the insurance contract liabilities.

15 Reinsurers' share of insurance liabilities

	2017 Shs'000	2016 Shs'000
At 31 December (Note 24)	124,546	73,493

Amounts due from reinsurers in respect of claims outstanding with the Company on contracts that are reinsured are included as reinsurers' share of liabilities in the statement of financial position.

16 Other receivables

	2017 Shs'000	2016 Shs'000
Due from related parties (Note 31)	886	1,109
Prepayments and deposits	12,397	12,035
Staff advances	9,428	7,146
Rent receivables	3,407	3,457
Accrued dividend income	1,223	3,565
Proceeds receivables from disposal of shares	7,339	5,580
Others	9,770	11,488
At 31 December	44,450	44,380

NOTES TO THE FINANCIAL STATEMENTS (continued)

17 Government securities

	2017 Shs'000	2016 Shs'000
(a) Government Securities - held to maturity		
Treasury bills and bonds maturing:		
- In 1 year	643,612	421,030
- In 1- 5 years	355,839	170,914
- After 5 years	1,618,671	1,077,894
Total	2,618,122	1,669,838
(b) Government Securities-available for sale		
At 1 January	733,221	371,480
Additions	140,577	506,202
Maturity	(137,969)	(97,188)
Disposal	(94,038)	(40,045)
Fair value gain / (loss)	16,267	(7,228)
Total	658,058	733,221

18 Commercial paper & corporate bonds

	2017 Shs'000	2016 Shs'000
Commercial paper and bonds held to maturity:		
- In 1 -5 years	185,116	145,459
- Over 5 years	-	-
Total	185,116	145,459

19 Deposits with financial institutions

	2017 Shs'000	2016 Shs'000
Held to maturity:		
- Within 90 days	418,292	448,090
- Within 1 year	5,035	-
Total	423,327	448,090

20 Share capital

	Number of Shares	Shs'000
Balance at 31 December 2016, and 1 January 2017	4,500,000	450,000
New shares issued during the year	1,000,000	100,000
Balance at 31 December 2017	5,500,000	550,000

An additional share capital was injected during the year. The total authorized number of ordinary shares is 5,500,000 with a par value of Shs 100. All shares are fully issued and paid up.

21 Retained earnings

The retained earnings / (deficits) represent the transfer of accumulated surpluses / (deficits) from the long-term insurance business net of tax. Movement in the retained earnings is shown in the statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Statutory reserve

The statutory reserve represents unappropriated actuarial surpluses from the long term business whose distribution is subject to restrictions imposed by the Insurance Act. The Act restricts the amounts of surpluses of the long-term business available for distribution to shareholders to 30% of the accumulated surplus of the long term insurance business. The movement in the statutory reserve is shown in the statement of changes in equity.

23 Insurance contract liabilities

	2017	2016
	Shs'000	Shs'000
Long term insurance contracts at 31 December		
- claims reported and claims handling expenses	198,648	150,623
- actuarial liabilities with respect to contracts in force	786,153	711,909
Total	984,801	862,532

Insurance contract liabilities comprises gross claims reported, claims handling expenses and actuarial liabilities with respect to all contracts in force for ordinary (including unit linked policies) and group life business

24 Movements in insurance liabilities and reinsurance assets

	2017			2016		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	862,532	(73,493)	789,039	878,084	(98,378)	779,706
Cash paid for claims settled in the year	(349,147)	165,162	(183,985)	(279,545)	166,638	(112,907)
	513,385	91,669	605,054	598,539	68,260	666,799
(Decrease) /increase in liabilities arising						
- from prior year claims	81,110	(59,060)	22,050	136,061	(69,469)	66,592
- from current year claims	390,305	(157,156)	233,149	127,932	(72,284)	55,648
Total increase in liabilities	471,415	(216,216)	255,199	263,993	(141,753)	122,240
Total	984,800	(124,547)	860,253	862,532	(73,493)	789,039
Notified claims	198,647	(124,547)	74,100	150,623	(73,493)	77,130
Actuarial value of life contract liabilities	786,153	-	786,153	711,909	-	711,909
Total at the end of year	984,800	(124,547)	860,253	862,532	(73,493)	789,039

NOTES TO THE FINANCIAL STATEMENTS (continued)

25 Amounts payable under deposit administration contracts

Liabilities due under deposit administration contracts are recorded at amortized cost. Movements in amounts payable under deposit administration contracts during the year are as shown below. The liabilities are shown inclusive of interest accumulated to 31 December. Interest was declared and credited to the customer accounts at a weighted average rate of 9.50%, (2016:7.00%).

	2017	2016
	Shs'000	Shs'000
At 1 January	2,601,453	2,247,144
Pension fund deposits received	585,374	498,176
Pension fund withdrawals	(331,811)	(315,236)
Interest payable to policyholders	260,323	171,369
At 31 December	3,115,339	2,601,453

26 Other payables

	2017	2016
Due to related companies (Note 31)	4,353	2,819
Accrued expenses	42,059	26,637
Rental deposits	1,948	2,219
Trade Creditors	2,185	469
Premium deposits	45,147	33,305
Excise duty tax accrual	-	13,056
Other liabilities	8,260	9,611
At 31 December	103,952	88,116

27 Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2016: 30%). The movement on the deferred income tax account is as follows

	2017	2016
	Shs'000	Shs'000
At 1 January	3,384	1,204
(Credit) /charge to profit or loss (Note 8(a))	6,643	2,180
At 31 December	10,027	3,384
Deferred tax movement is made up as follows:		
Movement in unappropriated surplus /(deficit)		
At 1 January	11,283	20,313
At 31 December	33,427	11,283
Movement of the surplus during the year	22,144	9,030
Deferred income tax charged/ (credit) at 30% (2016: 30%)	6,643	(2,709)
Deferred income tax asset on losses	-	4,889
At 31 December	6,643	2,180

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 (a) Notes to the statement of cash flows

	Notes	2017	2016
Reconciliation of profit before taxation to cash generated from operations:		Shs'000	Shs'000
Profit /(loss) before income tax		(59,702)	(12,990)
Adjustments for:			
Interest income	4	(367,448)	(277,838)
Profit /(loss) on sale of quoted equities	4	(197)	23,491
Profit on sale of government securities	4	(13,113)	(1,620)
Depreciation charge	9	5,556	7,143
Amortization charge	10	5,184	5,184
Fair value gain on investment properties	11	(7,000)	(18,000)
Gains from sale of fixed assets		(465)	-
Changes in:			
- technical provisions		585,099	363,647
- payables arising from reinsurance arrangement		(104,497)	71,900
- other payables		15,836	(1,039)
- other receivables		49,818	29,300
Cash generated from operations		109,071	189,178

(b) Cash and cash equivalents

	2017	2016
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:		
Cash and bank balances	21,492	83,313
Deposits with financial institutions (Note 19)	423,327	448,090
Total	444,819	531,403

NOTES TO THE FINANCIAL STATEMENTS (continued)

29 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of insurance business. At the reporting date, there was no litigation that the company was aware of. The directors are of the opinion that any litigation that may arise from this source will not have a material effect on the financial position or profits of the Company.

In 2015, the Company received a tax assessment for principal tax of Shs 33,745,125 relating to prior periods, which is in dispute and the company is contesting the assessment. No provision has been made in these financial statements for these amounts as the Company considers it has adequate grounds to dispute the assessment.

30 Operating lease commitments

The future minimum lease payments under operating leases are as follows:

	2017	2016
	Shs'000	Shs'000
Due not later than 1 year	11,352	9,461
Due after 1 year and not later than 5 years	68,361	62,561
Later than 5 years	17,793	14,144
Total	97,506	86,166

31 Related parties

In the normal course of business, insurance policies are sold to related parties at terms and conditions similar to those offered to major clients. The Company is a wholly owned subsidiary of Apollo Investments Limited, also incorporated in Kenya. Apollo Holdings Limited, Apollo Asset Management Company Limited, Gordon Court Limited and APA Insurance Limited are related to APA Life Assurance Limited through common shareholdings and directorships.

Outstanding balances with related parties	2017	2016
	Shs' 000	Shs' 000
(i) Due from related parties (Note 16)		
Due from Apollo Investments Limited	886	1,109
Total	886	1,109

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 Related parties (continued)

(ii) Due to related parties (Note 26)

	2017 Shs '000	2016 Shs '000
Due to Gordon Court Limited	105	211
Due to Apollo Asset Management Limited	1,636	1,302
Due to APA Insurance Limited	2,612	1,306
Total	4,353	2,819

(iii) Related party transactions

	2017 Shs '000	2016 Shs '000
Apollo Asset Management Company Limited		
Fees for asset management	10,856	9,164
Gordon Court Company Limited		
Office rent	11,229	10,796
APA Insurance Limited		
Contributions received for pension scheme	82,621	67,404
Premium received for group life assurance	4,376	4,187
Premium paid for general insurance business	11,598	8,449
Other related party transactions		
Sale of investment property to a director	47,000	-
Sale of investment property to a staff employed by the group	-	-

(iv) Key management and directors' compensation

	2017 Shs '000	2016 Shs '000
Directors' fees	3,870	3,409
Other remuneration	17,109	17,109
Key management compensation	48,025	50,522
Total	69,004	71,040

32 Weighted average effective interest rates

The following table summarises the company's weighted average effective interest rates realized during the year on the principal interest-bearing investments:

	2017 %	2016 %
Government securities	11.93	11.78
Deposits with financial institutions	9.63	13.91
Commercial paper & corporate bonds	12.95	12.66

SUPPLEMENTARY INFORMATION REVENUE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Ordinary Life business Shs' 000	Group Life business Shs' 000	Other Shs' 000	Total 2017 Shs' 000	Total 2016 Shs' 000
Income					
Gross earned premium	77,583	829,996	-	907,579	725,263
Reinsurance premiums ceded	(1,115)	(547,061)	-	(548,176)	(386,487)
Net earned premium	**76,468**	**282,935**	**-**	**359,403**	**338,776**
Investment income	2,809	66,527	307,113	376,449	273,636
Commission earned	436	113,309	-	113,745	76,542
Total income	**79,713**	**462,771**	**307,113**	**849,597**	**688,954**
OUTGO					
Claims and policy holder benefit					
Life and death claims	(374)	(154,365)	-	(154,739)	(133,801)
Surrenders and annuity payments	(2,192)	(58,668)	-	(60,860)	(57,230)
Maturities	(18,556)	-	-	(18,556)	(20,603)
Increase in insurance contract liabilities	(2,055)	(72,188)	-	(74,243)	6,670
Interest on deposit administration policyholders	-	-	(260,322)	(260,322)	(171,369)
Net claims and policyholder benefits payable	**(23,177)**	**(285,221)**	**(260,322)**	**(568,720)**	**(376,333)**
Expenses					
Operating and other expenses	(95,651)	(102,245)	(25,129)	(223,025)	(222,862)
Commissions payable	(32,115)	(102,719)	(9,523)	(144,357)	(127,008)
Total expenses and commissions	**(127,766)**	**(204,964)**	**(34,652)**	**(367,382)**	**(349,870)**
(Loss) / profit the year before income tax	(71,230)	(27,414)	12,139	(86,505)	(37,249)
Income tax expense	(401)	2,714	(8,956)	(6,643)	2,180
(Loss)/ profit for the year after tax	**(71,631)**	**(24,700)**	**3,183**	**(93,148)**	**(39,429)**

The above supplementary information was approved by the board of directors on 15 March 2018 and signed on its behalf by:

Daniel Ndonye
Director

Ashok Shah
Director

APA PERSONAL PENSION PLAN

When you retire, you will have a lot of free time to spend travelling, visiting loved ones and maybe even start your own business.
All these things come at a cost.
The APA Personal Pension Plan will help you get ready to meet the costs and enjoy your retirement in peace.

APA, Insuring Happiness

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